ARTICLE APPEARED
ON PAGE 26-27

U.S. NEWS & WORLD REPORT
8 September 1980

Why Russia Can't Bail Out Its Satellites

Eastern Europe is looking to Moscow for increased economic help at a time when the Soviet Union is bracing for grave economic troubles of its own.

Already the Russian economy is faltering badly, and a recently released Central Intelligence Agency study forecasts much tougher times to come.

Performance last year was the worst since World War II, with growth of the Soviet gross national product less than 1 percent.

Some improvement from that exceptional low point is anticipated in 1980, but the intelligence report says that a downward slide in the growth rate will continue well into the 1980s and perhaps beyond.

The dilemma this poses for Kremlin leaders as they seek to contain the workers' revolt in Poland is summed up by Adm. Stansfield Turner, director of the CIA: "There is no way the Soviets can do more to help Eastern Europe without hurting their own economy. To do less for Eastern Europe, however, might well endanger political stability in those countries."

What makes the dilemma all the more acute is evidence of growing discontent among Russian workers—reports, for example, of unrest that earlier this year disrupted production at two of the country's biggest auto plants.

"The public mood in the Soviet Union," notes the CIA study, "is already one of pessimism and cynicism."

Reason for gloom. For the first time in 25 years, says an intelligence analyst, Soviet workers no longer can count on a steady if modest improvement in their still austere standard of living.

In fact, he believes the Kremlin will be hard pressed to avoid an actual decline in living conditions in a country where the government admits that even now such basic commodities as soap, diapers, bread and milk are in short supply.

In these circumstances, the demands for more aid to bail out Poland and other Eastern European Communist states are bound to pose delicate political problems for Soviet leaders. The fact that workers in some of these countries are much better off than their Russian counterparts will hardly make the problems easier.

Reasons for the gloomy economic picture in the Soviet Union, according to the CIA study, are four key factors that are only too familiar to Americans: A mounting energy shortage on top of low productivity, inadequate capital investment and skyrocketing raw-material costs.

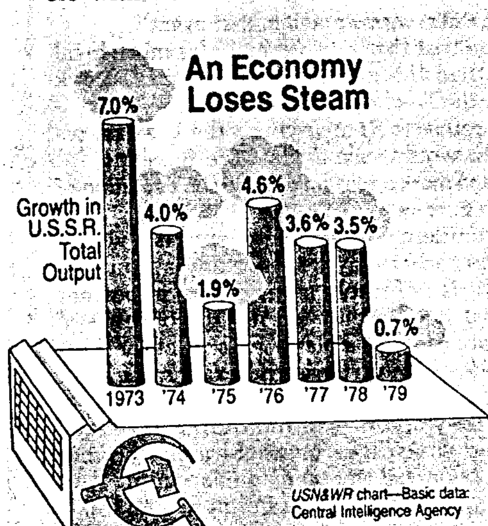
There is a fifth factor—the dismal performance of Soviet agriculture. Despite record grain imports of 31 million tons last year, the collectivized farms were unable even to sustain, let alone increase, per capita meat production.

The partial U.S. grain embargo, imposed in response to the Soviet invasion of Afghanistan last December, is expected to add to food shortages.

The Kremlin's newest economic headache—the energy squeeze—stems from a prospective slump in oil production as well as a decline in coal output. The CIA expects oil production to peak this year at less than 12 million barrels daily and then to turn downward, falling possibly to 10 million barrels daily in 1985.

While there still may be vast untapped reserves of oil, the agency points out that these are in inaccessible regions. At least a decade and vast additional capital investment would be required to open new fields.

The task is complicated by the Soviet system, which rewards oil-field workers with bonuses on the basis of the holes they drill rather than the amount of petroleum they discover.



The expected fall in oil output will have far-reaching ramifications. Not only will energy supplies for Soviet industry be constrained, but Russia's principal source of hard-currency earnings may be jeopardized. In 1979, exports of oil netted roughly 9 billion dollars and natural gas brought in another 2 billion—well over half of total foreign-trade income.

Eastern Europe, which obtains 80 percent of its oil needs from the Soviet Union at discount prices, already is feeling the impact of the Soviet oil pinch. These countries have been warned by Moscow to look for alternative sources at world-market prices.

Even more than the oil slump, it is sluggish productivity that is the most serious drag on the Soviet economy. In the words of the CIA report: "How to raise productivity is now the key economic question facing Soviet leaders as they enter the 1980s."

A vital shift. The problem will be compounded in coming years by a sharp drop in the number of additional workers joining the labor force. The U.S. intelligence agency estimates that the labor force in 1985 will grow by only 300,000, compared with 2.3 million last year. And the increase in 1985 will consist entirely of less productive workers—Central Asians who are relatively unskilled and immobile.

Only one area of the Soviet economy is not affected by the slowdown—the defense sector. Spending on the military forces, which has gone up substantially in recent years, now absorbs between 12 and 14 percent of the Soviet Union's gross national product. Continuing increases are expected through 1985 at least.

With little economic growth and with defense taking an ever expanding slice of the economic pie, Soviet leaders face difficult choices. They must decide whether to curb investment at the expense of future growth, squeeze consumption at the risk of trouble with the workers or curtail help to Eastern Europe.

The workers' revolt in Poland sends an unmistakable message to the Kremlin's leaders: They can neglect increasing demands of their Eastern European satellites only at the risk of potentially dangerous unrest in a sensitive area. □